UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1991/63
9 May 1991

ORIGINAL: ENGLISH

Second regular session of 1991

DISASTER REDUCTION AND RELIEF

Implementation of the international strategy for the fight against locust and grasshopper infestation, particularly in Africa

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the Economic and Social Council the report of the Director-General of the Food and Agriculture Organization of the United Nations (FAO) on the implementation of the international strategy for the fight against locust and grasshopper infestation, particularly in Africa, prepared in accordance with Council resolution 1990/62, paragraph 6.

Annex

IMPLEMENTATION OF THE INTERNATIONAL STRATEGY FOR THE FIGHT AGAINST LOCUST AND GRASSHOPPER INFESTATION, PARTICULARLY IN AFRICA

Report of the Director-General of the Food and Agriculture Organization of the United Nations

SUMMARY

The overall locust situation remained relatively calm in the second half of 1990 and early 1991 with no substantial populations of desert locust, African migratory locust, red locust or brown locust reported. Grasshopper infestations in West Africa were not as severe as in 1989 due mainly to the reduced rainfall, although approximately 1.3 million hectares still required control.

The Food and Agriculture Organization of the United Nations (FAO) has continued in its coordinating role and provided regular bulletins on the desert locust situation. The FAO Emergency Centre for Locust Operations (ECLO) was closed in December 1990 due to the desert locust recession and the reduced scale of grasshopper infestations. However, FAO responsibilities in the field of locust and grasshopper coordination continue through its regular programme activities. Further progress has been made in research, both fundamental and operational, particularly in impact research, and also in training. Additional proposals for research, training and operations are being developed.

Review of the locust and grasshopper situation

Desert locusts

1. In the second half of 1990 and early 1991 generally only small populations of desert locusts were present in Africa. However, in late 1990, a small infestation was present in southern Tunisia, together with other grasshopper species. A small-scale control campaign was undertaken. In general, environmental conditions have not been conducive to breeding and multiplication throughout most of the recession area since early 1990, and in many areas drought conditions have persisted. In the Near East a moderate infestation was largely controlled in Oman in mid-1990. Small-scale control was also undertaken in India and Pakistan in late 1990.

2. In general the situation in early 1991 was very calm, with only isolated swarms of desert locusts reported.

Other locusts

3. Populations of red, brown and African migratory locusts continued to be present at low levels in Africa. No significant populations requiring control were reported.

Moroccan locusts

4. There were again reports of infestations of Moroccan locusts in 1990 from north-western Afghanistan. Limited control operations were undertaken in 1990 and a further, more extensive, campaign is planned for 1991, financed through the Office of the United Nations Coordinator for Humanitarian and Economic Assistance Programmes relating to Afghanistan (UNOCA), with assistance from the United Nations Development Programme (UNDP) and the Union of Soviet Socialist Republics. A small infestation was also controlled in Morocco during 1990.

Grasshoppers

5. Substantial infestations of a number of species of grasshoppers were present in many of the Sahelian countries of West Africa during 1990. Due to the reduced rainfall in parts of the Sahel in 1990, the populations were not as extensive as predicted. Nevertheless, ground and aerial control campaigns were necessary and a total of approximately 1.5 million hectares were treated (see appendix). Heavy localized damage to millet and sorghum was reported in several countries. Similar infestations can be expected in 1991 if the summer rains approach their long-term average.

International cooperation

6. As the lead agency within the United Nations system for locust control, FAO continued its coordinating role during 1990/91. FAO continued to provide regular monthly summaries of the desert locust situation and provided assistance to the Joint Anti-Locust and Anti-Aviarian Organization (OCLALAV) for regular grasshopper bulletins in 1990. The FAO Emergency Centre for Locust Operation (ECLO) was closed in December 1990 due to the continued recession of desert locusts and the reduced scale of grasshopper infestations in Africa. However, FAO responsibilities in this area continue through its regular programme activities. Donor assistance for locust and grasshopper activities continued in 1990, although at reduced levels reflecting the decline in the desert locust and grasshopper infestations. The total amount of donor assistance for locust and grasshopper activities since 1985 is now estimated at approximately $US 300 million.

Remote sensing and meteorology

7. The results of field research on remote sensing to improve locust monitoring conducted in the Niger in 1989 are expected to be published shortly. Further studies of this type are planned for other important locust habitats. Progress was also made in the preparation of an atlas of desert locust habitats. In addition, a study of the desert locust based on remote sensing in Mauritania was also published in 1991.

8. In the area of meteorology, there was further cooperation with the Office National de la Météorologie in Algeria in relation to migration studies.

9. In terms of both meteorology and remote sensing, further improvements in the quality and timeliness of data received by the Locusts, Migratory Pests and Emergency Operations Group at FAO (Rome) were made, including digital enhancement of images.

Training

10. Training activities continued in 1990/91. Training ranged from brigade level to regional training courses on migrant pests and specialized workshops on safe and efficient pesticide application. Regional training courses for locust control are planned for South-West Asia, the Near East and Africa, in addition to other training activities.

Research

11. Progress continues in research to develop new approaches to locust and grasshopper control, in particular, approaches that are more environmentally sound and may contribute to sustainable agricultural development.

12. The joint FAO/UNDP Scientific Advisory Committee (SAC), established to advise UNDP on appraisal of project proposals aimed at developing alternative methods of locust control, held a meeting in September 1990. It recommended funding for a number of proposals in the fields of forecasting, meteorology, genetics and semiochemicals. The meeting of SAC planned for February 1991 was postponed until October 1991, when further proposals will be considered.

13. The Desert Locust Research and Development Register has been further revised. The third edition is to be published in May 1991.

14. The pesticide testing and vetting scheme, under which FAO provides advice on trials of new pesticides, has also continued. An independent panel met in 1990 and reviewed a large number of trials. The report of the panel is expected to be published in the near future. One of the purposes of the panel is to identify effective pesticides and determine the dosages at which they should be applied.

15. FAO has continued to support research in several areas in collaboration with appropriate organizations and institutes in the centres concerned. Such research has included the following:

(a) An environmental impact study. The results of a pilot project in Senegal were published in early 1991. A three-year follow-up study, carried out by FAO with donor funding, has commenced;

(b) Pesticide trials. Assistance was provided for trials in Mali in 1990 to test an insect growth regulator (IGR) that is non-toxic to the environment. Further collaboration in testing of IGRs is anticipated in 1991. Technical assistance was also provided for trials in the Niger;

(c) Desert locust development model. It is anticipated that FAO, through donor funding, will develop a simulation model for predicting swarm migration. It is expected that this model will be developed by late 1991;

(d) Spray application. FAO assisted in research to investigate safer and more efficient methods of pesticide application and in the evaluation of spraying equipment in collaboration with the Desert Locust Control Organization for Eastern Africa (DLCOEA).

16. In addition to the above-mentioned research, donors, both individually and collectively, continue to undertake research on various aspects of desert locusts and grasshoppers. Several meetings have been held where research results were presented and discussed. Others are planned for 1991. Specific research programmes will include the joint multi-donor programme on the development of biopesticides and individual donor programmes on crop-loss assessment.

Resources

17. In view of the continued recession of the desert locust and the reduced scale of grasshopper infestations in Africa no pledging or technical/planning meetings were held by FAO in 1990. With the closure of ECLO in December 1990, requests for additional assistance, particularly for grasshopper control, are now largely being directed through national steering committees in the affected countries.

18. With regard to the desert locust, a technical meeting to discuss an interregional project proposal for the Preventive Control of Desert Locust in West and North-West Africa is planned in May 1991. This project aims to develop and substantially strengthen the surveillance capabilities in the affected countries of the two regions.

19. The disposal of obsolete pesticide stocks remains a major issue. Further information gathered indicates that this is a major problem. It is anticipated that FAO will develop proposals for pilot projects to address this issue in 1991. Technical guidelines will also be issued shortly on the disposal of bulk quantities of pesticides.

Conclusion

20. The Director-General wishes to take this opportunity to express once again his appreciation to all donors that have contributed resources to the locust and grasshopper campaign. The need to develop alternative control strategies that are less dependent on chemical pesticides is receiving increased attention in research and development efforts in both the affected and the industrialized countries. The Director-General wishes to give assurance that FAO will continue to support such initiatives and efforts to assist and improve current strategies.

Appendix

SUMMARY OF GRASSHOPPER INFESTATIONS AND AREAS TREATED IN WEST AFRICA DURING 1990

(Hectares)

Country	Area infested	Area treated		
		Ground	Air	Total
Benin	No reports			No reports
Burkina Faso	..	56 000	--	56 000
Cameroon	7 000	500	--	500
Chad a/	200 000	192 200	--	192 200
Côte d'Ivoire	No reports			No reports
Guinea	17 100	..	..	..
Guinea-Bissau	No reports			No reports
Mali a/	600 000	351 400	107 700	459 100
Mauritania a/	500 000	50 100	100 500	150 600
Niger	566 000	296 000	139 600	435 600
Nigeria	..	..	..	..
Senegal	..	225 000	21 100	246 100
Total	1 890 100	1 171 200	368 900	1 540 100

a/ Estimated area infested.

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GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

REGIONAL COOPERATION

Summary of the Economic Survey of Europe in 1990-1991

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I. THE TRANSITION ECONOMIES IN 1990-1991: AN OVERVIEW

1. The euphoria which followed the revolutionary political changes in most of Eastern Europe and the Soviet Union 1/ in 1989 has now given way to a more sober appreciation of the economic and political problems of these countries. The transformation of centrally planned into decentralized market economies is now seen more clearly as a task of enormous complexity which cannot be accomplished by a quick transfusion of technology and technicians from the West. In the past year a diversity of approaches has emerged in the reforming countries, a reflection in part of the different initial circumstances of each country but also of a lack of consensus as to the most appropriate or optimal path of transformation.

2. This reappraisal has been especially marked in Germany, where the problems and costs of unification have escalated steadily throughout the past year. It is now accepted that the restructuring of the economy of the former German Democratic Republic will take much longer than was envisaged in the period between the collapse of the Berlin wall and the formal acts of unification. The transformation of the Eastern economy will be a major preoccupation of German economic policy for several years to come and, as such, the transition process will have an important influence on economic developments in the rest of Europe. The German experience has also been a salutary one for other reforming countries in Eastern Europe: the former German Democratic Republic for a long time had been regarded as the one centrally planned economy which had been successful in combining relatively high standards of living with advanced levels of technical efficiency in production. Its rapid collapse in the face of market forces, despite massive levels of support from the federal government, has led not only to a revision of previous perceptions but also, in some countries, to greater caution about the possibilities of a "big bang" approach to economic restructuring.

3. Considerable progress towards the establishment of a market economy has already been made in Poland, Hungary and, to a lesser extent, in Czechoslovakia. But elsewhere, progress has been slow and, in some cases, blocked either by the lack of political consensus on the objectives or profile of reform or, more fundamentally, on the domain of central government authority. In the Soviet Union and Yugoslavia, the political struggle over the distribution of power between the federal government and the constituent republics not only has prevented the implementation of coherent programmes of economic reform but also has blocked the adoption of effective measures to deal with acute stabilization problems. Unwilling to return to the status quo ex ante, unable to move decisively onto a path of coherent reform, and incapable of confronting growing macro-economic imbalances, these countries are drifting further into economic disarray and political instability. Disagreements over the extent of federal government authority also exist in Czechoslovakia but, at least so far, they have not had the same disruptive consequences for the economy as in the two previously mentioned countries.

II. SLOW-DOWN IN THE WEST

4. When the Eastern countries embarked on programmes of radical transformation of their economies, they did so in a context of sustained growth in the market economies of the West. Poland and Hungary were able to take advantage of this favourable climate to boost considerably their exports to the West in 1990. Although after eight years of uninterrupted growth some slow-down was inevitable, up to the middle of last year most forecasts for Western Europe were still pointing to only a slight deceleration in the rate of expansion. However, the Gulf crisis led to a sharp fall in business and consumer confidence in the latter half of 1990; that undoubtedly intensified the downturn which accelerated sharply in the last quarter of the year. Growth in the Western market economies, and the world economy as a whole, is now expected to weaken further in 1991. In Western Europe average gross domestic product (GDP) growth is likely to fall below 2 per cent for the first time since 1983. The German economy remains much stronger than the average but, nevertheless, is also expected to slow down. Most of the standard forecasts envisage a recovery in Western Europe beginning in the second half of 1991 and in the United States from mid-1991. The speedy end to hostilities in the Gulf and the possibility of weak oil prices speak in favour of this outcome. But many special features of the current downturn, in particular the high levels of corporate and personal indebtedness in some countries and the prospect of highly cautious lending policies being followed by the commercial banks, suggest that the recovery could be slower than expected. Thus average growth in Western Europe and North America this year could fall to around 1 per cent, with a stronger upturn - of around 2 1/2 per cent - being delayed until 1992.

5. Much of the deterioration in business and consumer confidence in the Western economies is cyclical (and therefore "normal") in character, although it was clearly aggravated by the months of uncertainty which followed Iraq's invasion of Kuwait last August. Nevertheless, there is, at least in Europe, a vague uneasiness that the weakening of confidence may not be entirely due to these two factors. Within the European Community, an earlier consensus on plans for monetary union has weakened somewhat in the light of problems which have emerged in the last year or so, not least the increased economic divergence between Germany and the rest of the community: the objective remains, but its achievement may now prove more difficult and take longer than was previously hoped. The Uruguay Round of trade negotiations was supposed to have been concluded in December 1990. In spite of fundamental differences in negotiating positions, a breakdown has been avoided for a while. The negotiations should resume in the course of this year; however, major problems remain to be solved, and the possibility of failure carries considerable risks for the longer run development of the world economy. Not only would failure send the wrong signals from the developed market economies to both the Eastern economies in transition and the developing countries, it would also reinforce the tendency towards regional trading blocs and undermine attempts to restore the rule-based multilateralism that has been a major support of the post-war expansion in international trade. The prospect of trade conflicts and

unilateral retaliatory action among the highly interdependent market economies of the West is unlikely to boost business confidence.

6. For all these reasons Europe now appears to be a much more difficult and complicated place than it was a year ago, and for the Eastern economies, there has been a clear deterioration in their external environment. However, although this transformation might dampen confidence for a while, it could prove to be a positive development if it means that much of the facile optimism of late 1989 and early 1990 is replaced by carefully constructed policies designed to deal with the highly complex problems of transformation in the East.

III. DEVELOPMENTS IN EASTERN EUROPE

A. Deep recession

7. The recession in Eastern Europe and the Soviet Union, which was already under way in a number of countries towards the end of 1989, spread throughout the region and deepened considerably in 1990. Net material product (NMP) fell on average by 11 per cent in Eastern Europe and by 4 per cent in the Soviet Union. In Yugoslavia gross material product declined by more than 7 1/2 per cent.

8. The recession was general, but its severity varied considerably from one country to another: the fall in output ranged from 3-5 1/2 per cent in Czechoslovakia, Hungary and the Soviet Union, to more than 10 per cent in Bulgaria, Poland and Romania. In the former German Democratic Republic output declined by nearly 20 per cent.

9. Although its extent varied, the decline affected all sectors of the economy. In most of the Eastern countries industrial production fell more than net material product, by 18 per cent on average in Eastern Europe, although by only 1.2 per cent in the Soviet Union. The Soviet figure seems rather low in the light of the reduced availability of supplies and reports of widespread strikes and other disruptions in working time: given the problems with Soviet production figures, it is quite possible that the actual fall was larger than shown by the official statistics. However, there is also evidence of large increases in the inventories of enterprises, and this could explain part of the discrepancy between the production figures and the availability of supplies.

10. Agricultural output also fell in all the Eastern countries, by 3.5 per cent in Eastern Europe (excluding the former German Democratic Republic) and 2.3 per cent in the Soviet Union. 2/ In fact, 1990 was the worst year for agriculture in the last decade. There was also a general decline in construction activity, ranging from 2 per cent in Hungary to 28 per cent in Romania.

B. Reforms and stabilization

11. It was not expected that the transformation of the former centrally planned economies could be achieved without severe cuts in the levels of aggregate output. In the first place some of the Eastern countries introduced severe stabilization measures to curtail accelerating inflation and burgeoning budget deficits, establish some measure of control over monetary aggregates and, in some cases, reduce the excess purchasing power imminent in the monetary overhang. Stabilization is a necessary adjunct to the distinct process of setting up a market economy, which requires radical changes in the institutions and rules that provide the framework for decentralized economic decision-making. The transformation process cannot be completed quickly and, therefore, is likely to intensify and prolong any recession arising from stabilization per se. After all, the point of structural transformation is to ensure that not all of what goes down comes up again and that defunct enterprises are replaced by new ones.

12. However not all the countries in the East are following a coherent programme of stabilization and transformation. Although the slump in East European output is general, an important distinction must be made between those countries, where a stabilization and adjustment recession is occurring within a coherent framework of policies and targets, such as Poland, Hungary and Czechoslovakia, and those where the deterioration reflects a loss of central control and the absence of coherent alternatives. The Soviet Union, Bulgaria and Romania fall into the latter group, although in the latter half of 1990, considerable efforts were being made in Romania to develop a framework for radical reform. In Yugoslavia the federal Government had a clear programme for reform at the end of 1989, but its failure to maintain central control over monetary and fiscal policy in 1990 places the country in the second group.

13. The differences between these two groups is reflected in the development of domestic absorption in 1990. Poland and Hungary squeezed domestic demand and shifted resources into the external sector with a significant improvement in exports to the West. Czechoslovakia has been following more or less the same course since January 1991. However, in Romania, the Soviet Union and Yugoslavia, private consumption was sustained at the cost of a marked deterioration in external and internal imbalances, thereby making the task of stabilization in 1991 even more difficult.

14. Nevertheless, the fall in output last year was still much greater than expected. There were a number of reasons for this, and while their importance varied from country to country, some of them were common to all. First, the old command system of the centrally planned economies generally collapsed much faster than anticipated and certainly much faster than the new institutions and practices of a market economy could be put into place. This has led to considerable disruption in those countries where no coherent alternative to the central planning system was being implemented: in the Soviet Union, Bulgaria and Romania economic life fell between two regimes.

C. External factors

15. A second major influence on Eastern output levels in 1990 was the effective disintegration of the system of trade and payments among the European members of the Council for Mutual Economic Assistance (CMEA). It was known from the start of 1990 that the traditional system of negotiated trade agreements and settlement in "transferable" roubles was coming to an end, and by mid-year it had been decided that from January 1991 the mutual trade of CMEA countries would be based on free market relations and settlement at world market prices in convertible currency. However, how outstanding claims and liabilities in "transferable" roubles would be settled at the end of the year was left unclear. All the Eastern countries therefore had an incentive to minimize outstanding rouble balances; to achieve this there was widespread resort to direct controls on their mutual trade.

16. The decline in CMEA trade was also exacerbated by the unexpectedly fast pace of German unification, which led to a very large fall of imports into the former German Democratic Republic from Eastern Europe, and by disruptions in Soviet energy supplies to the Eastern countries.

17. All together, trade among the East European countries fell by about 20 per cent in volume in 1990, while the volume of trade between Eastern Europe and the Soviet Union, more than half of which consists of fuels, dropped by some 13-15 per cent.

18. It is significant that the three countries which were able to offset part of this collapse in intra-Eastern trade by boosting exports to the West were those where stabilization and structural reforms have made the most progress, namely, Poland, Hungary and, to a lesser extent, Czechoslovakia. Their exports of manufactures to the West were particularly dynamic. It is too early for a detailed analysis of that performance, but it is clear that, driven by the fall in domestic and CMEA demand, exporters were able and willing to take advantage of the decentralization of economic decision-making and the liberalization of foreign trade procedures. In contrast, exports to the West from Bulgaria, Romania and, to a lesser extent, the Soviet Union were held back by supply constraints. In Yugoslavia export growth was less than half its rate in 1989.

19. However, the disruption in energy supplies was an important constraint on the growth of Eastern output in 1990 and is one which is unlikely to be overcome quickly. Coal is the principal source of indigenous primary energy in Eastern Europe, but reductions in output and consumption are necessary for pressing environmental reasons. Under CMEA, Eastern Europe became highly dependent on the Soviet Union for oil and gas supplies, but in 1990 these were affected not only by cuts in Soviet output but also by failures in transmission systems. All together, Soviet energy supplies to Eastern Europe in 1990 were more than 20 per cent less than agreed. Since the Eastern infrastructure for the transmission of energy was originally set up as an intra-CMEA system, it is difficult for East European countries to switch rapidly to alternative sources of supply.

20. Imports of energy from the Soviet Union are now paid for in convertible currency at world market prices. Since the intra-CMEA price in "transferable" roubles in 1989 was reckoned to be equivalent to about $7 a barrel, the switch amounts to a considerable oil price shock for the Eastern countries - although it is now rather smaller than was feared last October. Nevertheless, the higher price of oil reduces the economically viable capital stock in Eastern Europe, which is already being diminished by the introduction of market prices.

21. Given the appallingly low levels of energy efficiency in Eastern Europe, considerable savings are possible through energy conservation. However, in so far as energy inefficiency is built into the existing capital stock, energy conservation is closely linked to the recovery of fixed investment and to the broader programmes of reform designed to improve price signals and market incentives for energy saving. Significant gains in energy efficiency are likely to emerge only in the longer run: in the short term, economic developments in Eastern Europe will continue to be at risk from reductions and irregularities in the supply of oil, gas and electricity from the Soviet Union.

D. Declining investment

22. Investment, in both fixed assets and in human capital, is the principal instrument of structural change and economic transformation. It has recently been defined as the cost of changing economic arrangements, a useful and apposite definition for the "transition economies" of Eastern Europe and the Soviet Union. However, there are, as yet, no signs of an upsurge in investment in the Eastern countries. In 1990 there was a general decline in gross fixed investment: it fell on average by 14 per cent in Eastern Europe and by some 4 per cent in the Soviet Union, where a still larger decline of 14 per cent is anticipated in 1991. In Czechoslovakia there was, in fact, a small increase, but elsewhere the falls were large, ranging from 7 per cent in Yugoslavia to 35 per cent in Romania.

23. Given the slump in fixed investment, it is premature to expect to find clear evidence of structural change in the Eastern economies. Nevertheless, some tentative indications may be noted from the evidence of those sectors which have survived the shake-out of recession better than others. The shift of resources to the external sector in Hungary and Poland has already been noted, and especially the marked improvement in exports of manufactures to the West. How far this reflects special (once-for-all) factors rather than a better exploitation of comparative advantage and an improvement in underlying competitiveness is impossible to say at the present time. Nevertheless, it is an encouraging development and refutes the popular view that Eastern industry is incapable of producing any manufactured goods of a quality which could be sold on Western markets.

24. Changes in the detailed structure of national output in the East are difficult to observe with any precision because of data limitations. Nevertheless, it does appear that there was a significant shift to services in 1990, either because they continued to grow or because they fell less than NMP. Again it is too early to draw any firm conclusions from this: the

relative growth performance of services and goods is roughly what one would expect during a recession. Nevertheless, in the service sector there has been a rapid expansion of private enterprise which is known to be underestimated in the official statistics.

25. There is also scattered evidence of the growing role of the private sector in the production of goods. In Hungary, industrial output in small companies, which are mostly private, more than doubled in 1990. In Poland, gross value added in the private material sector increased by 17 per cent, whereas in the socialized sector it fell by 21 per cent. Also in Poland, the average level of job vacancies increased in 1990 at the same time as unemployment rose dramatically: this may be evidence of an increasing demand for labour in the private sector.

26. Although these are positive signs of structural change, they should not be exaggerated. The collapse of investment, the surprisingly small number of bankruptcies and the relatively small increases in unemployment, given the large falls in output, all confirm that the major restructuring effort is still to come.

E. Rising unemployment

27. The transition economies are bound to experience high levels of unemployment for at least two reasons. First, the implementation of tough stabilization policies will lead to short-run falls in aggregate output and employment. Second, the transition from a centrally planned to a market economy will inevitably lead to the elimination of overmanning ("hidden" unemployment) in some sectors and the disappearance of enterprises which will not be viable in a situation of hard budget constraints and market determined prices.

28. Even given the inadequacy of statistical data for the Eastern countries, there is no doubt that unemployment has risen sharply in those countries. In December 1990 the total number of persons unemployed in Eastern Europe was probably over 3 1/2 million with a further 2 million in the Soviet Union. However, with the exceptions of Poland, the former German Democratic Republic and Yugoslavia, unemployment rates were still below 2 per cent of the labour force. All the transition economies expect large increases in unemployment in 1991: excluding Yugoslavia, the number of unemployed in Eastern Europe is likely to exceed 4 million with another 5.3 million in the Soviet Union. Unemployment rates would then range between some 4 per cent in Romania and the Soviet Union to 15 per cent in the former German Democratic Republic, where the shock of transition has been greatest. Eventually the recovery of output and investment will lower these high levels of unemployment, but given the alleged scale of over-employment in the Eastern countries, it is likely that the fall in unemployment will lag some way behind the recovery in output. Unemployment is therefore likely to be a serious problem for quite some time.

F. High inflation

29. The actual timing of an economic recovery in the Eastern countries will depend partly on the speed at which the most serious problems of stabilization are overcome. In the past year Czechoslovakia, Hungary and Poland have achieved some success in this domain, but in the other countries the situation has deteriorated further. The problem of inflation has generally worsened, and it is unlikely that it can be solved quickly. Annual inflation rates in Eastern Europe last year ranged from 10 per cent in Czechoslovakia to more than 580 per cent in Poland and Yugoslavia. In the Soviet Union the official index of retail prices rose 5.3 per cent, but this has little economic meaning when there are endemic shortages. In Poland the inflation rate has fallen sharply from the hyperinflation levels of early 1990, although by less than targeted in the stabilization plan: the year-on-year rate of increase in prices fell from over 1,000 per cent in the first half of 1990 to 249 per cent in December and 95 per cent in January 1991. In the other Eastern countries inflation worsened during the year (except in the former German Democratic Republic where prices actually fell) and by January 1991 the month-to-month rate was above 5 per cent in all of them.

30. More progress has been made in the area of government budget deficits, the existence of which only became known in 1989 and 1990. The 1989 deficits in Czechoslovakia and Poland (not very large in Czechoslovakia) were turned into small surpluses in 1990, and there was a large reduction in the Hungarian deficit (from 3.1 per cent to 0.1 per cent of GDP). The reported deficit in the Soviet Union was smaller than in 1989 but was still nearly 6 per cent of GDP. In Bulgaria and Romania adequate data are not available, but the situation has almost certainly deteriorated. The elimination of government deficits in the Eastern countries is an essential component of anti-inflation strategies since, in the absence of government bond markets, they can be financed only through monetization.

31. On the external side, there have been some improvements, in current account deficits (in convertible currency). In Poland the squeeze on domestic demand and the improvement in export performance led to such a large external adjustment that the current account moved into surplus (by about $1 billion). Hungary also moved into slight surplus. Both Poland and Hungary had access to agreed financing for deficits in 1990. In contrast, financing difficulties in Bulgaria and the Soviet Union led to a run-down of reserves and the imposition of import restrictions. The Soviet Union's deficit was nearly $4 billion and would have been larger had sufficient financing been available. A major feature of 1990 was the increasing difficulties of the Eastern countries in obtaining new commercial credit from the West. Borrowing conditions tightened through 1990 as Western private creditors' perceptions of the credit risk of Eastern borrowers underwent a marked change. Eastern Europe is now beginning to absorb a major terms of trade shock as a result of the switch to world prices and convertible currency settlement in trade with the Soviet Union, but the financing of current account deficits in 1991 appears to be forthcoming mainly from official sources. However, the financing requirements of the Soviet Union may be more difficult to meet, in which case the current account constraint will tighten.

IV. WESTERN APPROACHES

32. A year ago the secretariat of the Economic Commission for Europe compared the present economic situation in Eastern Europe and the Soviet Union with that of Western Europe in 1947 and discussed whether another Marshall Plan would be an appropriate response on the part of the West to the problems of the East. The basic conclusion was that although Western support for Eastern reform would probably need to match the scale of the original Marshall Plan, its composition would need to be very different in view of the crucial differences between the two situations: in the initial stages of transition from a centrally planned to a decentralized market economy much greater emphasis would need to be given to technical assistance than was the case in the Marshall Plan. That was certainly not an argument for technical assistance instead of financial aid: the importance of the latter was stressed, especially in helping to break key bottle-necks (in transport and communications, for example), providing balance-of-payments support, currency stabilization loans, and so on. The emphasis on technical assistance was a recognition of the need to build, in most cases from scratch, the legal, financial and institutional infrastructure (including management skills) of a competitive market system. Without that infrastructure, efficient markets could not be established, and the capacity to absorb financial aid in productive uses would be limited. Of course the capacity to absorb financial assistance varies from country to country, and the differences have probably widened in the last year: that simply means that the mix of technical and financial aid has to be determined in the light of each recipient's particular circumstances. It was also argued in last year's analysis that foreign private investment was unlikely to make a significant contribution to Eastern development until the processes of reform and transformation were well established and the Eastern economies could provide an internationally competitive rate of return on capital. In the meantime, Western financial support for the transformation process would have to come from official sources - national and international - and should consist mainly of grants in order to avoid increasing existing burdens of debt.

33. Actual developments in 1990 do not suggest that these conclusions need radical revision. The experience of the former German Democratic Republic is instructive because it fits quite closely into the framework described in last year's Survey. Considerable publicity has been given to the large financial transfers from the federal government to the Eastern Länder; but less visible have been the enormous amounts of technical assistance flowing East from both the public and the private sectors. The assistance has been widely based, but there has been strong emphasis on the basic institutions of a market system: the legal and banking systems, private property rights, and, not least, by the reconstruction of administrative and local government structures. Private investors from the West have shown great interest in the potential of the East but considerable hesitancy in actually investing there. This is not surprising since the task of constructing market institutions takes time and is still far from complete: for example, the slow pace at which the system of property rights is being clarified has been one of the major obstacles to investment in the former German Democratic Republic.

34. This hesitance of Western private investors towards the East can be seen in the data on East-West joint ventures. Between October 1989 and January 1991 the number of foreign investment registrations in Eastern Europe 3/ and the Soviet Union increased nearly sixfold, from 2,900 to 16,700. However, the amounts of foreign capital involved are still very small: in January 1991 it averaged only $0.5 million per joint venture compared with about $1 million in October 1989. This clearly suggests that Western companies are keeping a foot in the Eastern door but are unwilling to commit large sums of capital until the reform process is more advanced. It also implies that, once the reforms have reached some critical mass, there could be a sudden upsurge of foreign investment into Eastern Europe, perhaps on the scale that occurred in Spain and Portugal after they joined the European Community.

35. The present reluctance of the Western private sector to commit funds to the Eastern countries is also reflected in the dramatic reduction of commercial bank lending to these countries. Lending by the Bank for International Settlements (BIS) reporting banks to Eastern Europe (excluding Yugoslavia) and the Soviet Union fell by nearly $7 billion in the first nine months of 1990 - and the decline would have been even larger had there not been an accumulation of payments arrears in Poland, Bulgaria and the Soviet Union. The increased unwillingness of the Western banks to lend to the East partly reflects the more realistic appreciation of the problems of transition, noted above, and the worsening economic situation in the East; but it also reflects the general deterioration in the balance sheets of Western banks, the pressures on them to raise capital asset ratios and, hence, their more cautious attitude to lending in general. The fears in the West of a "credit crunch" are thus already being realized in the East.

36. A significant contribution to easing the external financial burdens of the economies in transition has come from various forms of debt relief, although this was not always subject to prior agreement with the creditors. In 1990 the value of debt relief far exceeded grants from the Group of 24 and was of the same order of magnitude as new official credit to the East. Poland benefited by over $6 billion last year as a result of the Paris Club rescheduling its official debt, delayed payments of interest on commercial obligations and the write-off part of the German "jumbo credit". Bulgaria suspended repayments of principal and some interest on its private debt, thus saving more than $3 billion in payments abroad. The Soviet Union ran up arrears of at least $5 billion on Western suppliers' credits. Even larger amounts of debt relief are likely in the future. Paris Club members have recently agreed to write off some 50 per cent of Poland's $31 billion of official debt, and bank creditors, holding claims of nearly $11 billion, may eventually follow suit. Given the poor state of the Bulgarian economy, a formal rescheduling of debt is probably inevitable. The possibility of Germany writing down Soviet rouble obligations and rescheduling some convertible currency debt is to be raised in forthcoming talks between the two Governments. 4/

37. The issue that now arises with some urgency is whether the developed market economies of the West are ready to increase their levels of financial and technical assistance on a scale which would provide solid support to the process of reform in the East. The increased need for balance-of-payments support arising from the "Eastern" oil shock and the collapse in intra-CMEA trade appears to have been largely met, but the need has also arisen to deal with urgent domestic issues, such as the expected rapid rise in unemployment. The risk in the present situation is that everything that goes wrong, from domestic political failures to shocks from the Middle East, will be blamed on the reform programmes and that the intensification of short-run constraints will divert attention from the longer-run objectives. The momentum of the reform process, which is barely under way in some countries and not yet in others, could then be checked. The consequences of such a failure are incalculable and would not be confined to the economic sphere. One consequence is likely to be greatly increased pressures for emigration from the East. Warnings about these pressures have been made on many occasions in the last year by Eastern officials. Although the basis of their estimates of the likely scale of the problem is unclear and have an obvious purpose in trying to secure more aid from the West, the experience of Germany before unification suggests that the problem is a potentially serious one.

38. A great deal has already been done to organize assistance for the Eastern countries, both on a bilateral and multilateral basis, and the scale of operations has expanded rapidly in the past year. However, the number and variety of programmes and the multiplicity of countries and organizations involved make it difficult to assess whether they all add up to a coherent and adequate response to Eastern needs. Coordination in the field of balance of payments financing appears to be working well, but in the wider field of technical assistance and development projects the situation is far from clear. A great strength of the Marshall Aid programme for post-war reconstruction in Western Europe was its institutional structure, mainly embodied in the Organization for European Economic Cooperation (OEEC), for coordinating assistance to the recipient countries. This structure provided a forum where the plans and experience of recipient countries could be discussed in a comprehensive manner for the benefit of all. Equally important, it encouraged a cooperative approach to the aid effort on the part of both donors and recipients and enabled the various national programmes to be placed in a regional perspective. That was a significant contribution to the development of international economic cooperation in post-war Europe.

39. The need for institutional mechanisms to improve the coordination of present assistance to the reforming economies is not simply based on narrow arguments of efficiency, important though they may be. Aid programmes need to be seen to be well coordinated, effective and fair in order for parliamentary and popular support to be gained and maintained for this particular use of public money. The American administrators of Marshall Aid paid considerable attention to maintaining congressional support for the programme, and in this they were greatly helped by the structure and procedures of OEEC. At a time when the Western countries are facing recession and the prospect of rising

unemployment, and when the demands for economic assistance from other parts of the world are considerable, the matter of public support for assistance to the East assumes great importance.

Notes

1/ The term "Eastern Europe" as used in the Economic Survey of Europe in 1990-1991 is employed for convenience, to group together the former centrally planned economies of central and Eastern Europe plus Yugoslavia, which also finds itself in transition from a "socialist" to a market economy. The statistical aggregates referred to under this term thus cover Bulgaria, Czechoslovakia, the former German Democratic Republic, Hungary, Poland, Romania and, in most instances, Yugoslavia. For the period after the accession of the German Democratic Republic to the Federal Republic of Germany, the last quarter of 1990, data for newly-formed East German Länder are used to extend the GDR-reported time series. It should be noted that in some instances this involved a change in measurement concept (e.g. from NMP to GDP).

2/ However, about a quarter of the Soviet grain harvest was lost because of inefficiencies in collection, transport and storage.

3/ Including Yugoslavia but excluding the former German Democratic Republic.

4/ Financial Times, 13 March 1991. At stake are some TR 10 billion in German claims on the Eastern countries, of which the Soviet Union accounts for TR 6.4 billion and Poland TR 800 million.

Annex

SELECTED TABLES FROM THE ECONOMIC SURVEY OF EUROPE
IN 1990-1991

Table 1. Eastern Europe and the Soviet Union: industrial output

(Percentage change over same period of preceding year)

	1986	1987	1988	1989	1990 Jan.-March	1990 Jan.-June	1990 Jan.-Sept.	1990 Jan.-Dec.	1991 a/
Bulgaria	4.0	4.2	5.1	2.2	-8.5	-10.8	-13.0	-14.1	-(15-17)
Czechoslovakia	3.2	2.5	2.1	0.8	-2.9	-3.0	-3.7	-3.7	-(8-11)
German Democratic Republic	3.7	3.1	3.2	2.3	-4.7	-7.3	-21.0	-28.1	..
Hungary	1.9	3.5	-0.3	-2.5	-6.3	-6.8	-6.6	-4.5	-5
Poland	4.7	3.4	5.3	-0.5	-27.8	-28.0	-25.0	-23.3	5 1/2
Romania	7.3	2.4	3.1	-2.1	-18.4	-18.8	-20.6	-19.8	-
Yugoslavia	3.9	0.6	-0.7	0.9	-7.0	-11.0	-10.0	-10.3	..
Eastern Europe	4.4	2.7	2.8	0.2	-12.4	-14.1	-16.5	-17.5	-2 b/
Soviet Union	4.4	3.8	3.9	1.7	-1.2	-0.7	-0.9	-1.2	-2

Sources: National statistical yearbooks and current reporting.

a/ National and ECE projections.

b/ Excluding the former German Democratic Republic.

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Table 2. Eastern Europe and the Soviet Union: rate of inflation, 1989-1991

(Percentage change)

	Period over period of preceding year						Month over preceding month					
	Jan.-Dec. 1989	Jan.-March 1990	Jan.-June 1990	Jan.-Sept. 1990	Jan.-Dec. 1990	Jan.-Dec. 1991 a/	August 1990	Sept. 1990	Oct. 1990	Nov. 1990	Dec. 1990	Jan. 1991
Bulgaria	6.2	..	13.5	..	19.3	..	10.9	4.5	4.1	4.9	10.4	13.6
Czechoslovakia	1.4	3.4	3.7	7.2 b/	10.1	30	..	..	..	..	..	25.8
German Democratic Republic .	..	..	..	..	-2.5	..	0.4	1.8	1.7	-0.1	1.0	7.4
Hungary	17.0	23.3	25.3	26.6	28.9	35-37	2.9	1.5	1.5	2.1	1.7	7.5
Poland	244.1	1 110.7	1 091.2	920.4	584.7	52	1.8	4.6	5.7	4.9	5.9	12.7
Romania	..	..	2.2	..	5.6	..	..	..	..	23.4	11.6	9.2
Yugoslavia	1 256	2 990	2 137	702	588	30-40	1.9	7.1	8.1	3.0	3.3	5.6
Soviet Union c/	..	2.6	2.8	3.6	5.3	..	..	..	..	..	..	4-6

Sources: National statistics. Indices refer to cost-of-living index (Hungary), retail prices of goods and services (Bulgaria, Poland, Romania, the Soviet Union), or retail prices of the socialist sector (Bulgaria).

a/ National forecasts.

b/ The increase in July-September relative to the same period of 1989 was 14.1 per cent.

c/ Retail prices, goods and services. An overall measure of inflationary pressure, which reflects "unsatisfied demand", is officially put at 8 per cent for January-June, at more than 9 per cent for January-September, and at over 19 per cent for January-December.

Table 3. Eastern Europe and the Soviet Union: unemployment 1989-1991

(Thousands and per cent of labour force, end-of-period)

	Unemployed (thousands)						Unemployment (per cent)					
	Dec. 1989	March 1990	June 1990	Sept. 1990	Dec. 1990	Jan. 1991	Dec. 1989	March 1990	June 1990	Sept. 1990	Dec. 1990	Jan. 1991
Bulgaria	..	..	22.4	..	72.2	..	..	..	0.6	..	1.8	..
Czechoslovakia	..	7.0	12.6	43.9	77.0	119.5	..	0.1	0.2	0.6	1.0	1.5
German Democratic Republic a/	..	38.3	142.1	444.8	642.2	757.2	..	0.4	1.5	4.9	7.3	8.6
Hungary	13.0	32.5	41.8	56.1	81.4	99.1	0.3	0.7	0.9	1.5	1.7	2.1
Poland	9.7	266.6	568.2	926.4	1 126.1	1 195.7	0.1	1.5	3.1	5.0	6.1	6.5
Romania	..	..	..	120.0	150.0	200.0	..	..	..	1.0	1.3	1.8
Yugoslavia	1 248.0	1 278.0	1 277.0	1 335.0	1 390.0	..	12.2	12.5	12.5	12.7	13.2	..
Soviet Union	..	..	..	2 000.0 b/	2 000.0 b/	..	..	..	..	1.4	1.4	..

Sources: National statistics of "registered unemployed", except where otherwise noted.

a/ Excludes part-time unemployment (involuntary short-time working).

b/ "The number of people temporarily not working which according to the ILO methodology could be considered unemployed is estimated at about 2 million." Goskomstat January-September report, Izvestiya, 20 October 1990. This estimate is repeated in the report for the full year (Ekonomika i zhizn', 1991, No. 5).

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Table 4. East-West trade: value and volume, by Eastern country, 1986-1990

(Percentage change)

From/to:	Eastern exports					Eastern imports				
	1986	1987	1988	1989	1990 a/	1986	1987	1988	1989	1990 a/
	Value change (in United States dollars)									
Bulgaria	3	3	-1	11	22	17	7	2	1	-31
Czechoslovakia	15	10	5	8	14	19	18	8	-1	31
Hungary	13	21	11	11	25	21	11	1	16	12
Poland	7	16	16	8	36	7	16	21	23	5
Romania	5	12	-	-5	-30	17	-24	-4	-1	112
Eastern Europe	9	14	8	6	15	15	9	9	11	14
Soviet Union	-10	10	-4	17	13	-3	-3	18	16	3
Eastern Europe and the Soviet Union	-3	11	1	12	13	3	1	14	14	7
Memorandum item:										
Total Western imports/ exports	12	19	13	8	14	16	18	14	8	14
	Volume change									
Bulgaria	-7	-9	4	10	10	-4	-4	-3	1	-37
Czechoslovakia	1	-2	3	8	4	-3	6	1	-	20
Hungary	-1	7	7	13	11	1	-1	-5	17	1
Poland	-6	8	9	8	24	-12	8	12	25	-2
Romania	7	-5	5	-8	-38	2	-30	-12	-	94
Eastern Europe	-	1	7	5	4	-3	-1	2	12	4
Soviet Union	21	7	2	9	-	-20	-9	9	15	-3
Eastern Europe and the Soviet Union	8	1	4	7	2	-16	-5	7	14	-
Memorandum item:										
Total Western imports/ exports	8	7	7	8	6	2	6	8	8	6

Source: United Nations Commodity Trade Database (COMTRADE); OECD, Statistics on Foreign Trade, Series A (Paris); IMF, Directions of Trade and International Financial Statistics (Washington, D.C.); United Nations, Monthly Bulletin of Statistics (volume indices of total Western exports to and imports from the world); national statistics and ECE secretariat estimates based upon Western data.

a/ January-September.

Table 5. Eastern Europe and the Soviet Union: convertible currency current account of the balance of payments, 1985-1990

(Billions of United States dollars)

	Trade balances a/		Net services plus transfers		
	Total	of this: DME b/	Total	Investment income	Current account
Bulgaria					
1985	-0.4	-0.8	0.3	-	-0.1
1986	-0.8	-1.4	0.1	-0.1	-0.7
1987	-1.0	-1.4	0.2	-0.3	-0.8
1988	-1.0	-1.5	0.1	-0.4	-0.8
1989	-1.2	-1.4	-0.1	-0.6	-1.3
1990	-0.8	-0.8	-0.3	-0.7	-1.1
Czechoslovakia					
1985	0.7	0.2	0.1	-0.2	0.8
1986	0.2	-0.1	0.2	-0.1	0.4
1987	-0.1	-0.4	0.2	-0.1	0.1
1988	-0.1	-0.4	0.2	-0.2	0.1
1989	0.4	0.2	-0.1	-0.1	0.3
1990	-0.2	-0.6	-	-0.2	-0.2
Hungary					
1985	0.3	-0.5	-1.0	-0.7	-0.8
1986	-0.5	-0.7	-1.0	-0.8	-1.5
1987	-	-0.5	-0.9	-1.0	-0.9
1988	0.7	-	-1.3	-1.1	-0.8
1989	0.5	-0.1	-2.0	-1.4	-1.4
1990	0.3	0.8	-1.6	-1.4	0.1
Poland					
1985	1.2	0.7	-1.7	-2.4	-0.5
1986	1.1	0.5	-1.7	-2.6	-0.6
1987	1.0	0.9	-1.4	-2.8	-0.4
1988	0.9	0.6	-1.5	-2.8	-0.6
1989	0.1	0.4	-2.0	-3.1	-1.9
1990	2.2	3.2	-1.7	-3.3	0.7

	Trade balances a/		Net services plus transfers		
	Total	of this: DME b/	Total	Investment income	Current account
Romania					
1985	1.4	2.3	-0.5	-0.6	0.9
1986	1.9	2.2	-0.5	-0.6	1.4
1987	2.8	2.9	-0.1	-0.3	2.7
1988	3.6	3.2	-0.1	-0.2	3.4
1989	2.5	3.5	-	-	2.6
1990	-1.7	-0.9	-	0.1	-1.7
Eastern Europe					
1985	3.0	1.8	-2.8	-3.9	0.2
1986	1.9	0.5	-2.9	-4.2	-0.9
1987	2.8	1.5	-2.0	-4.6	0.8
1988	3.9	1.8	-2.5	-4.7	1.3
1989	2.3	2.6	-4.2	-5.2	-1.8
1990	-	1.7	-2.2	-5.5	-2.3
Soviet Union c/					
1985	0.7	-0.9	-0.7	-1.9	0.1
1986	1.4	-4.4	-0.9	-2.1	0.4
1987	8.1	1.0	-1.0	-2.2	7.1
1988	3.5	-2.7	-1.2	-2.5	2.3
1989	-2.3	-6.4	-1.7	-3.0	-4.0
1990	-1.4	-4.8	-2.9	-3.9	-4.3
Eastern Europe and the Soviet Union					
1985	3.7	0.9	-3.5	-5.8	0.3
1986	3.3	-3.9	-3.8	-6.3	-0.5
1987	10.9	2.5	-3.0	-6.8	7.9
1988	7.4	-0.9	-3.7	-7.2	3.6
1989	-	-3.8	-5.8	-8.2	-5.8
1990	-1.4	-2.6	-5.1	-9.4	-6.6

Source: National sources for Bulgaria, Czechoslovakia, Hungary and Poland; Romania (1984-1986 only); and ECE secretariat estimates.

a/ Trade balance f.o.b.-f.o.b. except for Hungary's trade balance with the developed market economies which is reported f.o.b.-c.i.f.

b/ Developed market economies.

c/ The total trade balance reflects trade with all market economies. Estimates of investment income reflect only estimates of interest earned on assets held at BIS reporting banks.

Table 6. Eastern Europe and the Soviet Union: external debt and financial indicators

(Billions of United States dollars, per cent)

	Gross debt			Net debt a/		Net debt/exports b/			Net interest payments/ exports b/	
	1988	1989	1990	1989	1990	1988	1989	1990	1989	1990
Bulgaria	9.1	10.7	11.1	9.5	10.4	167	234	327	13.7	20.5
Czechoslovakia	7.3	7.9	8.1	5.7	6.8	84	75	80	1.9	2.9
Hungary	19.6	20.6	21.3	19.4	20.0	265	255	267	18.2	18.8
Poland	39.2	40.8	48.5	38.5	43.4	398	413	340	32.9	26.3
Romania	3.1	1.0	2.0	-0.8	1.3	33	-13	30	0.6	-0.2
Eastern Europe	78.3	81.0	90.9	72.3	82.0	203	205	227	14.7	15.7
Soviet Union	49.4 c/	58.5	62.5	43.8	54.6	80	95	111	6.5	8.5
Eastern Europe and the Soviet Union	127.8	139.5	153.4	116.1	136.7	133	143	160	10.0	11.5
Memorandum item:										
Soviet Union d/	43.0	54.0	52.2 e/	..	..	..	..	..	..	..

Source: National statistics, ECE secretariat estimates and International Monetary Fund, International Bank for Reconstruction and Development, Organisation for Economic Cooperation and Development and European Bank for Reconstruction and Development, The Economy of the USSR: Summary and Recommendations (December 1990), p. 50.

a/ Gross debt less official reserves or BIS deposits.

b/ Exports of goods and services except for the Soviet Union for which only exports of goods to market economies are used.

c/ Includes $3.2 billion in clearing account deficits, cumulated chiefly with Finland and Yugoslavia. Pravitelstvennyi vestnik (Government Gazette), No. 19, September 1989.

d/ External debt contracted or guaranteed by Vneshekonombank. Houston Four Report.

e/ June 1990; excludes $5 billion in arrears on Western supplier credits.